



Environmental Services Solid Waste Management Division Audit Report

Issued by the
Internal Audit Department
March 10, 2006

**City of El Paso
Internal Audit Department
Environmental Services
Solid Waste Management Division Audit**

EXECUTIVE SUMMARY

The Internal Audit Department has concluded its audit of the Solid Waste Management (SWM) Division. Based on the results of the audit, seven findings were identified to indicate internal control weaknesses within SWM. Five of these findings are considered significant in nature, while two findings are not significant.

Solid Waste Management has instituted some very effective initiatives that have improved its reputation within the community. While these initiatives have increased community interest such, as the Citizen Collection Stations and the Recycling Program, the administrative side of the department requires improvement. While SWM currently has an expenditure review process, it is not effective in monitoring proper scrutinizing of paid expenditures. The internal controls within SWM are also in need of improvement. Listed below is a summary of the seven (7) findings identified in this report:

- A review of 15 transactions conducted by SWM between the period of August 24, 2005 thru November 30, 2005 was performed. 5 out of the 15 transactions (33%) contained invoices that did not agree with the unit prices listed in the corresponding contract.
- SWM is not properly reconciling fuel charges to Fleet Services' supporting documentation.
- SWM does not have a system in place to adequately reconcile the current inventory, distribution, and billing statements in connection with garbage containers.
- SWM does not maintain a current list of safety inventory including the total cost of the inventory on hand.
- There are two individuals responsible for placing orders for equipment purchases, receiving the equipment, and having custody of the equipment. This is a breakdown of a proper segregation of duties internal control.
- SWM has not reconciled its Fixed Assets and Accounts Receivable accounts to the General Ledger in PeopleSoft.
- SWM's Standard Operating Procedures manual does not reflect current operations and is not being disseminated to employees.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

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BACKGROUND

The Solid Waste Management (SWM) Division is responsible for maintaining the cleanliness and healthful condition of the City of El Paso by providing an efficient, safe, and regulated management of solid waste and related materials. The division is also responsible for ensuring compliance with federal and state disposal and environmental laws and regulations. Other services include public speaking engagements on environmental issues to schools, and civic groups.

SWM provides the following services: residential collection, dead animal pickup, business garbage collection, special collections, household hazardous waste disposal, citizen collection stations, landfills, large commercial solid waste haulers, recycling, and environmental enforcement.

Solid Waste Management has been reorganized for Fiscal year 2005 - 2006. Previously this department was a separate stand-alone department, with four functional areas, which included Administration, Recycling, Collections, and Disposal. The department is now functionally reporting to the Deputy City Manager for Development & Infrastructure as the Environmental Services Department. This reorganized department has eight divisions, which include, Administration, Asbestos/Molds/Air Quality, Brownfields, Code Compliance, Environmental Management, EPA/TCEQ Compliance, Solid Waste Management, and Stormwater.

SCOPE

The objectives of this audit were to verify the existence of a good Policy and Procedures process and manual. The audit provided sufficient documentary evidence to ascertain whether SWM was operating in a control conscious environment. A control conscious environment is characterized by the activity's adequacy and effectiveness in improving risk management, controls and the governance processes. This included evaluating the:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Compliance with laws, regulations, and contracts.

The audit period covered the operations of Solid Waste Management from September 1, 2005 to March 10, 2006.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

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***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

The definition of a significant finding is one that has a material effect on the City of El Paso's financial statements, identifies an internal control breakdown, a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an "Other Finding".

Finding 1

Expenditures Review Process

A review of 15 transactions conducted by Solid Waste Management between the period of August 24, 2005 thru November 30, 2005 was performed. 5 out of the 15 transactions (33%) selected for review contained invoices that did not agree with the unit prices listed in the corresponding contract.

Vendor	Exceptions
Bazaar Uniforms- City Wide Contract	3 out of 6 (50%) invoices reviewed did not match the unit prices listed in the contract. 4 out of 6 (66.7%) invoices do not match the items ordered in the original requisition order.
Advance'd Temporaries- City Wide Contract	11 out of 18 (61.1%) invoices reviewed did not match the unit prices listed in either contract. 1 out of 18 (5.6%) invoices charged the city for Holiday pay (New Year's Day) for temporary employees.
RW Beck- SWM Dept. Contract	3 out of 3 (100%) invoices reviewed were inaccurately calculated according to the unit price rates listed in the contract. The contract lists hourly rate for Research Analyst to be \$120.00. RW Beck charged the City \$125.00 an hour. The City was overcharged by \$2,857.50 on the 3 invoices reviewed.
RM Personnel- City Wide Contract	20 out of 20 (100%) invoices did not provide amount of hours or hourly rate for temporary personnel thus preventing a comparison with the contract.
Ruiz Protective Service Inc.- SWM Contract	1 out of 12 (8.3%) invoices were not calculated correctly. 2 out of 12 (16.7%) invoices reviewed did not match the unit prices listed in the contract. SWM paid for an armed Security Guard for the Clint Landfill, but the approved contract and purchase order does not list an armed guard rate.

Recommendation

Solid Waste Management should monitor expenditures prior to payment processing by reviewing invoices for accuracy.

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Management's Response

Cross-checking of invoices with contracts will occur from now on. We have done some initial research on the vendor issues that were found. Our analysis shows the following:

Advanced Temporaries – Once we received an updated contract for this vendor all invoiced amounts were checked. There was an issue of not checking the rate to the title of the employee. The Temporaries in question are scheduled to leave 8/31/06.

RW Beck – An analysis was done and a credit owed to the City of El Paso was requested and received on 2/24/06 as a reduction of Invoice 0079125.

Ruiz Protective Svcs Inc. – The armed guard services were a special request for October and part of November as a onetime occurrence for the initial rollout of the new rates at the Clint Landfill. This was a verbal approval by the Director. This decision was based on a safety and security concern. No written approval is available.

Bazaar Uniforms and RM Personnel are still being checked and are expected to be resolved by the end of March.

Responsible Party

Yanahalte Alatorre, Accountant II

John Brady, Accountant IV

Implementation Date

Updated copies of Citywide contracts were received on 3/16/06 and the procedure of checking prices was implemented immediately.

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Finding 2

Fleet Services

Solid Waste Management (SWM) is not properly reconciling fuel charges to Fleet Services' supporting documentation.

Recommendation

SWM should obtain supporting documentation in order to reconcile fuel purchases from Fleet Services. Per Fleet Services, the information is available to user departments. The information needs to be requested from Fleet Services or can be obtained electronically.

Management's Response

Have requested this information. Environmental Services met with General Services and they will be training an Environmental Services' employee to be able to run reports from the General Services' Software.

Responsible Party

Yanahalte Alatorre, Accountant II

Implementation Date

Request was made on 3/21/06. Training on the use of the General Services' System is expected to take place by end of May 2006. The recommendation will be fully implemented by 6/30/06.

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Finding 3

Garbage Containers

SWM does not have a system in place to adequately reconcile the current inventory, distribution, and billing statements in connection with garbage containers. In 2005 SWM purchased 9,172 containers at a cost of \$360,873.60 and for 2006 SWM estimates it will purchase 9,000 to 10,000 containers at an estimated cost of \$500,000.00 (cost is higher due to a price increase from the vendor).

Recommendation

SWM should implement a system to adequately reconcile garbage container inventory.

Management's Response

An Access database will be developed in house in order to account for and locate containers. This will start with the new containers being purchased for the recycling program as well as all new purchases of containers for refuse collection. Existing inventory of containers will be added to the database as information is gathered through our route audits and investigations. However, most of the original 1997 and 1998 containers will be fully depreciated by FY08. It is not cost effective to go back 8 or 9 years to recreate a database for these units.

Responsible Party

John Brady, Accountant IV

Implementation Date

This new program is expected to be in place by September 30, 2006. Existing units will be added to the database on an ongoing basis.

Chief Internal Auditor's Response

Environmental Services is assuming a risk in waiting until 9/30/06 to fully implement this recommendation. Solid Waste Management is planning on purchasing over \$500,000.00 in containers for the 2006 Fiscal Year. Solid Waste Management purchased \$360,873.60 in containers for Fiscal Year 2005. The internal control of safeguarding City of El Paso's assets is critical to maintaining proper stewardship of financial resources.

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Finding 4

Inventory

SWM does not maintain a current list of safety equipment inventory including the total cost of the inventory on hand.

Recommendation

SWM should maintain a current inventory list including total cost of safety equipment inventory on hand.

Management's Response

A review of the items to be maintained will be made and a running inventory created.

Responsible Party

Martin Val Verde

Implementation Date

This will be implemented by 8/31/06

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Finding 5

Segregation of Duties

There are two individuals responsible of placing orders for equipment purchases, receiving the equipment, and having custody of the equipment.

Recommendation

The functions of ordering, receiving, and maintaining custody of inventory should be separated so that no one individual has complete control over the entire inventory control process.

Management's Response

Purchases of equipment and supplies are now being received by employees other than those placing orders and having custody of the inventory.

Responsible Party

John Brady

Implementation Date

Recommendation implemented March 31, 2006

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***OTHER FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

Finding 6

GL Reconciliations

SWM is not reconciling its Fixed Assets and Accounts Receivable accounts to the General Ledger.

Recommendation

SWM needs to reconcile Fixed Assets and Accounts Receivable to the General Ledger on a consistent basis.

Management's Response

We are currently working on reconciling fixed assets and accounts receivable.

Responsible Party

Yanahalte Alatorre, Accountant II

Implementation Date

Fixed Assets reconciliation will be completed by 4/30/06 and Accounts Receivable by 8/31/06.

Chief Internal Auditor's Response

Environmental Services is assuming a risk in waiting until 8/31/06 to fully implement this recommendation of reconciling its Accounts Receivable ledger. Solid Waste Management, as of 3/31/06, has \$466,751.20 in its Accounts Receivable ledger. The internal control of establishing a proper monitoring system is critical to maintaining management's governance and oversight in a proper financial reporting mechanism.

Finding 7

Standard Operating Procedures

- SWM Standard Operating Procedures manual does not provide guidance to employees in the following areas:
 - ❑ Expenditure process
 - ❑ Reconciliation process
 - ❑ Inventory management
 - ❑ Budget management
 - ❑ Ethics
 - ❑ Safety Issues (while there are policies and procedures in place, they were not included as part of the Standard Operating Procedures).
- The SWM's Standard Operating Procedures do not specifically address that:
 - ❑ Recycling revenues and tire disposal fees are received through the mail at the SWM office and processed in the same manner as payments received from billed customers.
 - ❑ Special waste removal fees and weed removal charges are invoiced to the customer and payments can be received through the mail or at the SWM office.
 - ❑ Refuse collection permits are paid at the SWM office by cash or check and the same cash procedures for handling cash at the SWM office apply.
 - ❑ Penalties and interest are received through the mail, through wire transfers made to the City, or received at the SWM office.
- There is only one copy of SWM Standard Operating Procedures in the office that is not being disseminated to employees.

Recommendation

SWM's Standard Operating Procedures manual should be updated to correct the deficiencies identified in this finding and should be disseminated to all SWM personnel as part of their on-going training.

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Management's Response

The Standard Operating Procedures Manual will be updated & disseminated over the next few months.

Responsible Party

Gloria Duran

Implementation Date

This is expected to be completed by December 31, 2006.

Chief Internal Auditor's Response

Environmental Services is assuming a risk in waiting until 12/31/06 to fully implement this recommendation of updating its Policy & Procedure Manual. The current Policy and Procedure Manual lacks key directives and information that are critical to the operation of Solid Waste Management. The establishment of a Policy and Procedure Manual is critical to maintaining a strong system of internal controls and a fundamental component of establishing consistent standards of operation.

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INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

Based on the results of this internal audit, SWM needs to improve its oversight over the Administrative function of the department. Expenditures should be adequately monitored and reconciled in order to ensure that discrepancies are identified and communicated to management on a timely basis. Solid Waste Management should establish policies and procedures to ensure that what the division is paying is in accordance to already agreed upon costs. Implementation of the recommendations contained in this Audit Report should assist management in improving their ability to meeting their objectives.

We wish to thank Solid Waste Management's management and staff for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File

Edmundo S. Calderon, CIA, CGAP
Chief Internal Auditor

Signature on File

Liz Delao, CIA, CGAP
Auditor II

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